

Northwestern Medical Center

Fiscal Year 2016 budget analysis

Report Date:

8/11/2015

Northwestern Medical Center

Jill Bowen - CEO

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Summary Budget to Budget Increase

The 2016 budget shows a 5.9% increase over the 2015 budget. The hospital was also asked by the GMCB to prepare the 2016 Budget recognizing that they exceeded the NPR budget level in 2014. They addressed this by reducing prices 8%. They will discuss this at the hearing.

The major reason for the NPR over 3% is an adjustment to the 2015 NPR base budget. Of the 2.9% over the 3.0% target, 1.7% is the base adjustment, 1.1% is physician transfers, and 0.1% is health reform investments. NMC will explain this at the hearing. (See the letter sent by GMCB and schedule in the NMC narrative).

Utilization is projected to be 11.9% higher, much of it having occurred in the 2014-2015 operating years. The budget does include 31 new FTEs, many for clinical services. NMC does have favorable productivity measures. The operating surplus is budgeted at 3.6% of net revenues; this is lower than the 4.8% margin in 2015. The balance sheet is in a very good position. The latest financial projections for 2015 show higher NPR and operating surplus exceeding approved budget level.

The commercial cost shift is decreased by \$2.5 million. Over \$2.2 million is related to better reimbursement from Medicare and Medicaid. Lower bad debt and free care represent the balance (\$.3 million.)

Issues to Address at the Hearing

Discuss the 8% reduction in your rates and why the budget request is exceeding the 3.0% target.

Describe the reasons for the large shifts being seen from commercial/self pay patients to Medicaid.

Discuss the trends being seen in bad debt and free care.

Discuss the risks in the budget around Medicare reimbursement.

	2014A	2015B	2015P	2016B	B15-B16 Change	B15-B16 % Change
Net Patient Care Revenue	\$ 91,165,412	\$ 90,795,885	\$ 97,066,796	\$ 96,172,890	\$ 5,377,005	5.9%
Other Operating Revenue	\$ 4,266,628	\$ 4,497,739	\$ 4,424,150	\$ 4,186,270	\$ (311,469)	-6.9%
Total Operating Revenue	\$ 95,432,040	\$ 95,293,624	\$ 101,490,946	\$ 100,359,160	\$ 5,065,536	5.3%
Total Expenses	\$ 87,861,917	\$ 90,686,161	\$ 93,623,856	\$ 96,704,225	\$ 6,018,064	6.6%
Net Operating Income	\$ 7,570,123	\$ 4,607,463	\$ 7,867,090	\$ 3,654,935	\$ (952,528)	-20.7%
Operating Margin %	7.9%	4.8%	7.8%	3.6%	-1.2%	

Northwestern Medical Center

Key Indicators	Actual 2013	Actual 2014	Budget 2015	Projected 2015	Budget 2016	Actual 2014-Budget 2015	Budget 2015-Budget 2016
Utilization							
Acute Care Ave Daily Census	20.4	21.7	18.9	20.7	20.2	-2.8	1.3
Total Average Daily Census	24	25	22	24	24	-3	1.3
Acute Average Length of Stay	3.2	3.3	3.0	3.2	3.2	-0.3	0.3
Acute Admissions	2,299	2,386	2,315	2,371	2,289	-71	-26.0
Total Beds (Staffed)	80	80	80	80	80	0	0.0
Adjusted Admissions	9,126	9,664	9,509	10,062	10,641	-154	1,131.9
Adjusted Days	29,574	32,086	28,303	32,065	34,374	-3,783	6,071.5
Capital							
Age of Plant	10.4	9.5	12.1	12.1	13.3	2.6	1.2
Long Term Debt to Capitalization	17.4%	15.2%	14.4%	13.7%	12.7%	-0.9%	-1.7%
Capital Expenditures to Depreciation	97.7%	123.6%	116.3%	163.8%	155.2%	-7.4%	39.0%
Debt per Staffed Bed	418,073	411,587	365,360	364,942	353,982	-46,227	-11,378
Net Prop, Plant & Equip per Staffed Bed	379,651	391,653	433,693	433,693	445,707	42,040	12,014
Debt Service Coverage Ratio	9.3	9.5	6.8	9.6	6.1	-2.7	-0.7
Revenue							
Deduction %	47.0%	47.7%	49.6%	49.1%	46.6%	1.8%	-2.9%
Bad Debt % of Gross Revenue	2.6%	3.0%	3.2%	2.2%	2.8%	0.2%	-0.4%
Free Care % of Gross Revenue	1.0%	0.7%	1.0%	0.7%	0.9%	0.2%	-0.1%
Operating Margin %	8.0%	7.9%	4.8%	7.8%	3.6%	-3.1%	-1.2%
Total Margin %	12.4%	11.2%	5.2%	8.7%	4.2%	-5.9%	-1.1%
All Net Patient Revenue % of Gross Rev	51.8%	51.4%	49.7%	50.3%	52.5%	-1.6%	2.8%
Medicare Net Patient Revenue % of Gross Rev (incl Phys)	47.2%	43.7%	42.4%	42.3%	45.6%	-1.3%	3.1%
Medicaid Net Patient Revenue % of Gross Rev (incl Phys)	36.3%	40.2%	35.6%	37.2%	44.3%	-4.6%	8.7%
Comm/self pay Net Patient Revenue % of Gross Rev (incl Phys)	63.3%	63.7%	63.1%	63.3%	63.0%	-0.6%	-0.2%
Productivity							
Adjusted Admissions Per FTE	17.8	18.4	17.9	18.4	18.9	-0.5	1.0
FTEs per 100 Adj Discharges	5.6	5.4	5.6	5.4	5.3	0.2	-0.3
Overhead Expense w/ fringe, as a % of Total Operating Exp	26.1%	25.2%	26.7%	26.5%	26.5%	1.5%	-0.2%
FTEs Per Adjusted Occupied Bed	6.3	6.0	6.8	6.2	6.0	0.9	-0.9
Cost							
Cost per Adjusted Admission	9,409	9,092	9,536	9,305	9,088	445	(449)
Salary & Benefits per FTE - Non-MD	70,748	72,646	74,908	76,061	76,177	2,262	1,269
Compensation Ratio	52.3%	53.6%	56.2%	54.4%	57.3%	2.6%	1.1%
Capital Cost % of Total Expense	5.3%	5.3%	5.1%	4.8%	4.7%	-0.3%	-0.4%
Liquidity							
Current Ratio	5.9	7.0	9.1	9.7	9.8	2.1	0.7
Days Cash on Hand	312.2	371.3	353.5	369.9	361.0	(17.7)	7.4
Cash to Long Term Debt	3.7	4.7	4.9	5.3	5.6	0.1	0.8
Payer							
DSH % of Total NPR	2.2%	1.7%	1.4%	1.3%	1.5%	-0.3%	0.1%
Medicaid % of Total NPR (incl. DSH)	14.6%	16.6%	15.0%	15.4%	18.4%	-1.6%	3.4%
Medicare % of Total NPR (incl. DSH)	31.6%	30.5%	30.6%	29.9%	30.7%	0.1%	0.1%
Commercial % of Total NPR (incl. DSH)	51.5%	51.2%	53.0%	53.5%	49.4%	1.7%	-3.6%
Employed							
Non-MD FTEs	512.4	524.0	530.5	547.5	561.8	6.5	31.3
Physician FTEs	28.7	28.8	30.1	29.3	29.4	1.3	(0.7)
Travelers	3.9	3.8	1.0	4.8	2.5	(2.8)	1.5
Outpatient							
All Outpatient Visits	59,336	76,342	99,643	90,919	92,357	23,301	(7,286)
Operating Room Procedure	2,493	2,189	1,991	2,130	2,215	(198)	224
Observation Units	1,193	1,084	956	1,023	1,100	(128)	144

The GMCB sent a letter to the hospital requiring NMC to prepare their 2016 budget recognizing they exceeded the GMCB NPR target levels in FY 2014 and to examine projected 2015 as part of that analysis. (see letter from GMCB attached and NMC response in their narrative)
The result of this is a 5.9% in NPRs and a reduction in rates/prices of 8%.

1) The hospital is submitting an 8% decrease in overall rates. This is in part their response for exceeding the GMCB NPR target levels in FY 2014 and Projected 2015. The hospital is asked to discuss their plans to address this as part of their 2016 budget.

a) The 2014 actuals exceeded budget by \$3.0 million after adjusting for allowed variance. NMC has a NPR variance schedule in their narrative that describes how they arrived at the 8%. Provide a presentation of the schedule at the hearing.

b) Who will actually see the 8% discount? Will that amount, on average, the discount that commercial payers will be paying? Describe the different reimbursement agreements you may have when contracting with commercial payers.

c) NMC describes "exceptions" they would like the GMCB to consider as part of their response for the 2014 performance. Discuss these exceptions and the issues you see trying to manage NPR growth.

2) NMC has submitted a 5.9% NPR increase. The increase over 3.0% is made up of health care investments, physician transfers, and what NMC is characterizing as "exceptions" that have emerged in their 2014 -2015 fiscal years.

a) Briefly describe the increases over 3%. (may be explained as part of question 1 above)

3) Bad debt and free care levels have come down from 3.7% of gross revenues in 2014 to 2.9% in projected 2015. The hospital has budgeted 3.7% for 2016, explaining a change in free care policy will cause some of this increase. Describe the policy change being considered in free care. Describe the recent changes you have seen in terms caseloads, patient coverages, billing disputes, etc. that might be influencing the changes. Is there any evidence this is related to higher enrollment and/or shift to Medicaid?

- 4) NMC has included physician transfer NPRs of \$1.1 million. However, there is no increase in reported FTEs. Describe the physician transfer and why there is no apparent increase in MD FTEs.
- 5) Utilization is increasing but there is no significant change in physicians.
- a) Acute admissions are essentially level but length of stay is budgeted to increase 2/10ths of a day. What is driving the increase in length of stay?
- b) Physician visits and OR procedures are increasing by over 10%. Imaging is hardly changing – is imaging not sensitive to these events?
- 6) Are the NMC assumptions for estimating Medicare following the proposed rules that CMS has published? What are the key items in the proposed rules that might change either favorably or not for NMC? Have you budgeted for the low volume reimbursement? Discuss the risks NMC is taking regarding Medicare reimbursement.
- 7) Medicaid reimbursement is budgeted to be much more favorable in 2016, increasing from 36% (net to gross) in 2015 Budget to 44% in Budget 2016. What explains this increase?
- 8) Are the projections filed with the FY 2016 Budget still valid for 2015? If materially different, provide an updated profit and loss for FY 2015.
- 9) Other operating revenue includes a \$1.9 million item called “other”. Included in this is \$497,000 in meaningful use funds. What other revenues are recorded here?

Northwestern Medical Center
PROFIT & LOSS STATEMENT

	2014A	2015B	2015P	2016B	2015B- 2015B-2016B	2016B
REVENUES						
INPATIENT	\$43,078,019	\$43,823,855	\$44,925,353	\$38,776,136	-\$5,047,719	-11.5%
OUTPATIENT	\$131,344,585	\$136,111,405	\$145,639,203	\$141,443,993	\$5,332,588	3.9%
PHYSICIAN	\$0	\$0	\$0	\$0	\$0	0.0%
CHRONIC REHAB	\$0	\$0	\$0	\$0	\$0	0.0%
SNF/ECF	\$0	\$0	\$0	\$0	\$0	0.0%
SWING BEDS	\$53,617	\$82,857	\$82,857	\$46,294	-\$36,563	-44.1%
GROSS PATIENT CARE REVENUE	\$174,476,221	\$180,018,117	\$190,647,413	\$180,266,423	\$248,306	0.1%
DISPROPORTIONATE SHARE PAYMENTS	\$1,543,718	\$1,274,456	\$1,262,556	\$1,444,571	\$170,115	13.3%
BAD DEBT	-\$5,218,540	-\$5,762,816	-\$4,225,691	-\$5,045,412	\$717,404	12.4%
FREE CARE	-\$1,302,980	-\$1,794,212	-\$1,264,143	-\$1,621,948	\$172,264	9.6%
GRADUATE MEDICAL EDUCATION	\$0	\$0	\$0	\$0	\$0	0.0%
DEDUCTIONS FROM REVENUE	-\$78,333,007	-\$82,939,660	-\$89,353,339	-\$78,870,744	\$4,068,916	4.9%
NET PATIENT CARE REVENUE	\$91,165,412	\$90,795,885	\$97,066,796	\$96,172,890	\$5,377,005	5.9%
OTHER OPERATING REVENUE	\$4,266,628	\$4,497,739	\$4,424,150	\$4,186,270	-\$311,469	-6.9%
TOTAL OPERATING REVENUE	\$95,432,040	\$95,293,624	\$101,490,946	\$100,359,160	\$5,065,536	5.3%
OPERATING EXPENSE						
TOTAL OPERATING EXPENSE	87,861,917	90,686,161	93,623,856	96,704,225	\$6,018,064	6.6%
NET OPERATING INCOME (LOSS)	\$7,570,123	\$4,607,463	\$7,867,090	\$3,654,935	-\$952,528	-20.7%
NON-OPERATING REVENUE	\$3,456,864	\$407,046	\$1,007,046	\$542,442	\$135,396	33.3%
EXCESS (DEFICIT) OF REVENUE OVER EXPENSE	\$11,026,987	\$5,014,509	\$8,874,136	\$4,197,377	-\$817,132	-16.3%

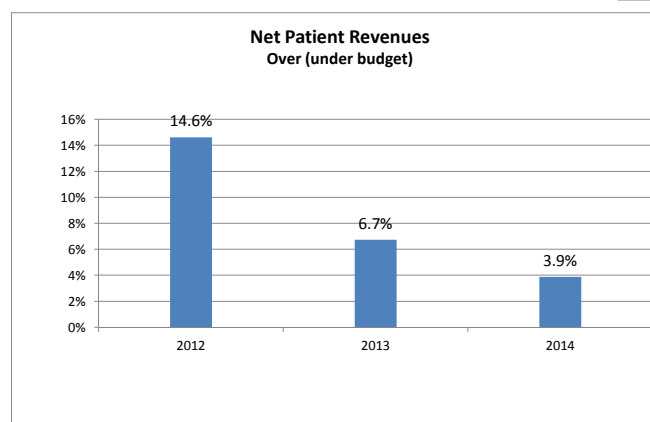
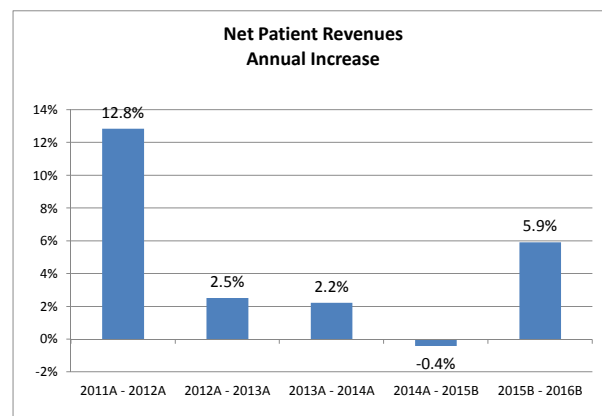
Physician revenue activity is included in the Outpatient revenue line. GMCB staff are working with hospitals to consistently align and report the information.

Bad debt and free care is budgeted at 2015 levels, but more unfavorable than 2015 projections. NMC will address this at the hearing.

Higher expenses are driven primarily by wage increases (3%), fringe, and 31 new FTEs. (see narrative).

Operating income has been reduced in 2016 in part to meet NPR target and to address the budget overages in FY14 and FY15.

The higher NPR request is in part to address the NPR over budget the last three years. See the charts below.



Northwestern Medical Center

NET PATIENT REVENUE PAYER MIX

Payer mix describes the reimbursement and patient change that occurs from year to year.

Net Patient Revenue - All	Bud 15 Total	Bud 16 Total	Change
Disproportionate share	\$ 1,274,456	\$ 1,444,571	\$ 170,115
Medicaid	\$ 13,627,438	\$ 17,743,572	\$ 4,116,134
Medicare	\$ 27,798,626	\$ 29,521,822	\$ 1,723,196
Commercial/self pay/Wcomp	\$ 48,095,365	\$ 47,462,925	\$ (632,440)
TOTAL	\$ 90,795,885	\$ 96,172,890	\$ 5,377,005
			5.9%

NPR shows a 5.9% increase over the 2015 budget. This increase can be described as follows:

	Millions	% Share
Rate Increase	\$ (4.2)	-4.7%
Physician Practice Transfers	\$ 1.1	1.2%
Bad Debt/Free Care Improvement	\$ 0.3	0.3%
Disproportionate Share Loss	\$ 0.2	0.2%
Utilization Gain/Loss	\$ 4.0	4.4%
Health Care Reform Investments	\$ 0.1	0.1%
"Exceptions" to update base budget		
Variable costs	\$ 2.5	2.8%
Program transfer	\$ 0.8	0.9%
Other Change	\$ 0.7	0.7%
	\$ 5.4	5.9%

This schedule presents net patient revenue change for the hospital. Essentially, this is a summary of who will pay the bill for the increases in the budget.

The 2016 budget shows a 5.9% increase over the 2015 budget.

The shaded items reflect the physician practice transfers (1.2%) that occurred during FY 2015 and a request for an "allowance" for health care investments (0.1%). The balance of the increase over 3% is due to a program transfer (0.9%) and the request for a variable cost "exception".

NMC will go over this in detail at the hearing.

Northwestern Medical Center

NET PATIENT REVENUE PAYER MIX

Payer mix describes the reimbursement and patient change that occurs from year to year.

Net Patient Revenue - Hospital	Bud 15 Total	Bud 16 Total	Change
Disproportionate share	\$ 1,274,456	\$ 1,444,571	\$ 170,115
Medicaid	\$ 11,409,884	\$ 13,633,997	\$ 2,224,113
Medicare	\$ 23,454,748	\$ 24,439,762	\$ 985,014
Commercial/self pay/Wcomp	\$ 40,962,793	\$ 40,704,364	\$ (258,429)
TOTAL	\$ 77,101,881	\$ 80,222,694	\$ 3,120,813

Net Patient Revenue - Physician	Bud 15 Total	Bud 16 Total	Change
Disproportionate share			\$ -
Medicaid	\$ 2,217,554	\$ 4,109,575	\$ 1,892,021
Medicare	\$ 4,343,878	\$ 5,082,060	\$ 738,182
Commercial/self pay/Wcomp	\$ 7,132,572	\$ 6,758,561	\$ (374,011)
TOTAL	\$ 13,694,004	\$ 15,950,196	\$ 2,256,192

Net Patient Revenue - All	Bud 15 Total	Bud 16 Total	Change
Disproportionate share	\$ 1,274,456	\$ 1,444,571	\$ 170,115
Medicaid	\$ 13,627,438	\$ 17,743,572	\$ 4,116,134
Medicare	\$ 27,798,626	\$ 29,521,822	\$ 1,723,196
Commercial/self pay/Wcomp	\$ 48,095,365	\$ 47,462,925	\$ (632,440)
TOTAL	\$ 90,795,885	\$ 96,172,890	\$ 5,377,005

This schedule breaks out the net patient revenue change s between hospital and physician services.

You will note that the B15-B16 changes by payer may very well differ significantly when examining hospital vs. physician. This is because price changes, reimbursement, and utilization will differ for those services.

Our analysis finds a significant increase in Medicaid NPR (30%). In addition, we find a \$1.7 million (6%) increase in Medicare primarily related to reimbursement improvements. NMC will address these increases at the hearing.

The reduction in Commercial/self pay is in part related to the reduction in rates (prices).

The disproportionate share change has been verified and an increase will have a favorable effect on rate.

Northwestern Medical Center

RATE TREND AND SOURCE OF REVENUES

Rate is the average change in price for services provided.

	Budget 2013 Approved	Budget 2014 Approved	Budget 2015 Approved	Budget 2016 Submitted	Average Annual 2014- 2015
Northwestern Medical Center	2.9%	3.9%	6.4%	-8.0%	4.4%
Weighted Average All Hospitals				4.3%	

	Bud 16 Total	Gross revenue from Rates	Net revenue from Rates
Hospital Inpatient	-9.3%		
Hospital Outpatient	-9.7%		
Professional Services	0.0%		
Nursing Home	0.0%		
Summary price request	-8.0%	\$ (15,721,494)	\$ (4,228,433)

Commercial Payer	Self Pay/Other	Medicaid	Medicare	
\$ (4,427,270)	\$ 198,837	\$ -	\$ -	

		Gross Revenue from Other	Net revenue from Other
Utilization			\$ 7,276,509
Physician Acquisition or reduction			\$ 1,059,666
Other major program change			\$ 791,176
Free care			\$ 74,912
Bad debt			\$ 233,060
Dispro share change			\$ 170,115
Summary Other (non-price) request		\$ 15,969,800	\$ 9,605,438

Commercial Payer	Self Pay/Other	Medicaid	Medicare	DSH
\$ 2,914,346	\$ (138,752)	\$ 3,487,631	\$ 1,013,284	\$ -
\$ 307,974	\$ 8,457	\$ 240,992	\$ 502,243	\$ -
\$ 94,569	\$ 101,430	\$ 387,510	\$ 207,667	\$ -
\$ -	\$ 74,912	\$ -	\$ -	\$ -
\$ -	\$ 233,060	\$ -	\$ -	\$ -
\$ -	\$ -	\$ -	\$ -	\$ 170,115
\$ 3,316,889	\$ 279,107	\$ 4,116,133	\$ 1,723,194	\$ 170,115

Total NPR Increase Due to Price and Other	\$ 248,306	\$ 5,377,005
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\$ (1,110,381)	\$ 477,944	\$ 4,116,133	\$ 1,723,194	\$ 170,115
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The rate increase is -8.0% with **decreases** budgeted for inpatient and outpatient services and no increase for physician services. The rate is expected to **decrease** NPR by \$4.2 million. The reduction is NMC's response for exceeding NPRs in 2014 and 2015. (see narrative)

Other changes in NPR will generate \$9.6 million in revenue for an overall net revenue increase of \$5.4 million. Utilization is the biggest driver, with increases shown across all payers.

Northwestern Medical Center
UTILIZATION & STAFFING

	2012A	2013A	2014A	2015B	2015P	2016B	B15-B16 Change
Utilization							
ADJUSTED ADMISSIONS	9,508	9,126	9,664	9,509	10,062	10,641	11.9%
ACUTE ADMISSIONS	2,265	2,299	2,386	2,315	2,371	2,289	-1.1%
AVERAGE LENGTH OF STAY	3.2	3.2	3.3	3.0	3.2	3.2	8.5%
OUTPATIENT OPERATING ROOM PROCEDURES	2,306	2,493	2,189	1,991	2,130	2,215	11.3%
LABORATORY TESTS	330,663	323,816	336,310	325,957	336,604	345,792	6.1%
EMERGENCY ROOM VISITS	27,998	26,995	26,019	24,059	26,145	24,410	1.5%
RADIOLOGY-DIAGNOSTIC & CT SCANS	36,879	37,046	34,334	35,194	37,297	34,425	-2.2%
MRIs	2,571	2,503	2,581	2,453	2,713	2,546	3.8%
PHYSICIAN OFFICE VISITS	39,543	46,277	63,788	72,505	77,580	80,036	10.4%
CLINIC VISITS	7,915	7,638	7,307	7,548	8,076	6,958	-7.8%
Staffing							
NON-MD FTE	482	512	524	530	547	562	31.3
TRAVELERS	11.4	3.9	3.8	1.0	4.8	2.5	1.5
RESIDENTS & FELLOWS	-	-	-	-	-	-	0.0
MLPs	-	-	-	-	-	-	0.0
PHYSICIAN FTEs	25.0	28.7	28.8	30.1	29.3	29.4	-0.7
TOTAL MD AND NON MD FTES	518.4	545.1	556.5	561.6	581.5	593.7	32.1
SALARY PER FTE - NON-MD	54,918	56,428	56,361	58,534	57,863	59,087	0.9%
SALARY & BENEFIT PER FTE - NON-MD	71,074	70,748	72,646	74,908	76,061	76,177	1.7%
FTES PER ADJUSTED OCCUPIED BED	5.9	6.3	6.0	6.8	6.2	6.0	-12.8%
FTES PER 100 ADJUSTED DISCHARGES	5.1	5.6	5.4	5.6	5.4	5.3	-5.4%

Budgeted 2016 utilization (adjusted admissions) shows a 11.9% increase from 2015 budget levels.

Also, projected 2015 is showing higher utilization than budget and Budget 2016 has added physician practices. This increase partially explains the higher NPR levels NMC has seen the last 2 years.

There is also a large increase in operating room procedures and physician visits and imaging is budgeted to decline. They have been asked to explain those changes.

Non MD staffing is increasing by 31, many related to new programs and clinical needs. There is no increase in physicians. See narrative.

Productivity indicators are trending favorably as FTEs are being added while utilization is increasing.

Northwestern Medical Center
BALANCE SHEET & INDICATORS

	2014A	2015B	2015P	2016B
Cash & Investments	\$59,550,907	\$58,733,268	\$63,800,000	\$64,759,503
Total Current Assets	\$73,526,089	\$70,333,268	\$75,600,000	\$77,009,503
Total Board Designated Assets	\$27,163,784	\$25,207,612	\$27,000,000	\$26,950,000
Total Net, Property, Plant And Equipment	\$31,332,230	\$34,695,440	\$34,695,440	\$35,656,522
Other Long-Term Assets	\$1,030,782	\$2,100,000	\$900,000	\$1,300,000
Total Assets	\$133,052,885	\$132,336,320	\$138,195,440	\$140,916,025
Total Current Liabilities	\$13,841,459	\$10,353,445	\$10,270,027	\$10,378,384
Long-Term Debt	\$17,994,862	\$17,275,333	\$17,275,333	\$16,340,184
Other Noncurrent Liabilities	\$1,090,621	\$1,600,000	\$1,650,000	\$1,600,000
Total Fund Balance	\$100,125,943	\$103,107,542	\$109,000,080	\$112,597,457
Total Liabilities and Equities	\$133,052,885	\$132,336,320	\$138,195,440	\$140,916,025

The hospital's overall balance sheet shows a continued improvement in net assets (fund balance).

Debt is trending lower and cash and Board Designated Assets are increasing.

Hospital				
Net Increase/Decrease in Cash	\$ 12,883,318	\$ 6,422,150	\$ 4,249,093	\$ 6,026,235
Days Cash on Hand	371	354	370	361
Cash to Long Term Debt	4.7	4.9	5.3	5.6
Long Term Debt to Capitalization	15.2%	14.4%	13.7%	12.7%
Debt Service Coverage Ratio	9.5	6.8	9.6	6.1

NMC's cash on hand is budgeted to be the most favorable in the state. Debt indicators are favorable.

System Average				
Net Increase/Decrease in Cash	\$ 54,485,472	\$ 74,776,400	\$ 21,398,061	\$ (11,067,200)
Days Cash on Hand	176	181	185	180
Cash to Long Term Debt	1.9	1.6	1.7	1.7
Long Term Debt to Capitalization	29.6%	32.3%	32.6%	31.3%
Debt Service Coverage Ratio	3.3	3.1	2.9	2.8

Cash measures compare very well against the system average.
Debt measures are improving and the debt position is favorable compared to the system.

Northwestern Medical Center

CAPITAL BUDGET

	2014 Actuals	2015 Budget Approved	2015 Projection	2016 Budget	2017 Plan	2018 Plan	2019 Plan
Non-Certificate of Need Capital Purchases	\$5,134,958	\$4,675,116	\$6,586,349	\$6,159,768	\$6,727,219	\$6,144,824	\$6,188,058
Certificate of Need Capital Plans		\$2,000,000	\$0	\$15,938,181	\$16,961,078	\$0	\$0
Total Capital Purchases	\$5,134,958	\$6,675,116	\$6,586,349	\$22,097,949	\$23,688,297	\$6,144,824	\$6,188,058

Hospital

Age of Plant (years)	9.5	12.1	12.1	13.3	helps understand the status of all fixed assets		
Capital Expenditures to Depreciation	123.6%	116.3%	163.8%	155.2%	helps to understand current level of capital spend		
Capital Cost % of Budget	5.3%	5.1%	4.8%	4.7%	helps understand relative share of depr & interest		

System Average

Age of Plant (years)	10.2	10.9	11.0	11.9
Capital Expenditures to Depreciation	80.6%	122.4%	131.0%	95.1%
Capital Cost % of Budget	5.9%	6.0%	5.9%	5.8%

Age of plant is increasing in Bud 16 and is older than the Vermont hospital system. If NMC's plans to address this with a Master Facility Plan CON in 2016 are approved, the increased capital investment will lower the age of plant.

NMC capital cost % of budget remains lower than the state average.

Non CON capital items include both building improvements and equipment, including \$.7 million for commercial property , a Meditech replacement, and an OR Chiller replacement.

Also, NMC has a CON planned in 2016, \$15.9 million for a Master Facility Plan that will continue into 2017.

	2016 Budget	2017 Plan	2018 Plan	2019 Plan
Non Certificate of Need Detail				
Construction in Progress (Non-CON>\$500K)	\$0	\$0	\$0	\$0
Land & Land Improvements (Non-CON >\$500K)	\$0	\$0	\$0	\$0
Total Buildings & Building Improvements (Non-CON >\$500K)	\$700,000	\$1,875,000	\$1,273,500	\$0
Total Fixed Equipment (Non-CON >\$500K)	\$0	\$0	\$0	\$0
Total Major Movable Equipment (Non-CON >\$500K)	\$2,710,753	\$0	\$0	\$0
Total Non-Certificate of Need Capital Purchases over \$500,000	\$3,410,753	\$1,875,000	\$1,273,500	\$0
Other Non CON Items under \$500,000	\$2,749,015	\$ 4,852,219	\$ 4,871,324	\$ 6,188,058
Total Non-Certificate of Need Capital Purchases	\$ 6,159,768	\$ 6,727,219	\$ 6,144,824	\$ 6,188,058

Certificate of Need Plans

Certificate of Need Proposals				
Land & Construction for Clinic in Georgia (Northwestern Medical Center)	\$ -	\$ -	\$ -	\$ -
Master Facility Plan (Northwestern Medical Center)	\$ 15,938,181	\$ 13,798,578	\$ -	\$ -
Property Dev in GA (Northwestern Medical Center)	\$ -	\$ 3,162,500	\$ -	\$ -
Total Certificate of Need Proposals	\$ 15,938,181	\$ 16,961,078	\$ -	\$ -



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April 3, 2015

Northwestern Medical Center

Jill Bowen, CEO
133 Fairfield Street
St. Albans, VT 05478-1013

Dear Ms. Bowen:

This letter is to inform you of the Green Mountain Care Board's concerns regarding your 2014 budget to actual performance. Your budget was significantly outside the enforcement policy and the Board is looking for you to conform to the policy going forward. It is the expectation of the GMCB that you will build your 2016 Budget recognizing that you exceeded your 2014 budget and should explain how you will remedy that as part of your 2016 Budget submission.

The FY 2016 budget instructions will be forthcoming and will include basic principles to limit growth and improve quality outcomes. The Board realizes that each hospital has unique circumstances and we will consider those circumstances as part of the budget review. However, as in recent years, we recognize the need for a careful balance of the concerns of Vermont citizens and businesses with the financial health of the hospital industry.

The Board recognizes that a number of factors influence the final year net patient revenues (NPR) and the subsequent operating results. Your 2014 budget to actual performance reflected several items (attached) that led to the higher NPR. As a result, your commercial prices that were authorized in your 2014 approved hospital budget resulted in a greater level of NPR than was necessary.

The guidance to prepare your 2016 budget includes:

- 1) You should consider both 2014 actuals and 2015 projections and examine the extent that your approved rates were too high;
- 2) Reducing prices or a lower rate request should be considered for FY 2016;
- 3) You should identify those items or assumptions that might materially change the budget;
 - a. Revenue estimates for each payer type, especially Medicare and unique commercial contracts,
 - b. Significant payer mix utilization shifts,
 - c. Bad debt and free care trends,

- d. Outstanding revenue settlements,
- e. Any other unusual events.

4) Your 2016 budget narrative should explain how you addressed these considerations.

Your hospital staff should feel free to contact me or my staff, (Lori Perry and Janeen Morrison) if you have questions about the budget policies, budget instructions, schedules, or the Adaptive Insights budget tool.

Sincerely,

s/Michael Davis

Michael Davis

Director of Health System Finances

Green Mountain Care Board

Cc: Green Mountain Care Board Members
Ted Sirotta, CFO, Northwestern Medical Center

**Northwestern Medical Center
Profit & Loss Statement**

	2014B	2014A	2014B - 2014A		2015B
			\$ Difference	% Chg	
Gross Patient Care Revenue	\$175,627,389	\$174,476,221	(\$1,151,168)	-0.7%	\$180,018,117
Net Revenue Deductions	(\$87,868,084)	(\$83,310,809)	\$4,557,275	-5.2%	(\$89,222,232)
Net Patient Care Revenue	\$87,759,305	\$91,165,412	\$3,406,107	3.9%	\$90,795,885
Other Operating Revenue	\$4,596,849	\$4,266,628	(\$330,221)	-7.2%	\$4,497,739
Total Operating Revenue	\$92,356,154	\$95,432,040	\$3,075,886	3.3%	\$95,293,624
Operating Expense	\$87,574,809	\$87,861,917	\$287,108	0.3%	\$90,686,161
Net Operating Income (Loss)	\$4,781,345	\$7,570,123	\$2,788,778	58.3%	\$4,607,463
Non-Operating Revenue	\$817,950	\$3,456,864	\$2,638,914	322.6%	\$407,046
Excess (Deficit) Rev over Exp	\$5,599,295	\$11,026,987	\$5,427,692	96.9%	\$5,014,509

NMC exceeded the net patient revenue variance by about \$3 million. The primary reasons for the variance is due to Medicaid utilization, better reimbursement in both Medicaid and Medicare, and a one-time increase in NPR under the Vt. Managed Care contract incentive.

NMC explains that mid-year adjustments for rates are problematic as insurance premiums could not be directly rolled back to subscribers. NMC would consider the higher surplus as part of developing the 2016 budget.

It is my estimate that an overall rate increase of 5-6% for NMC would yield about \$3 million in net patient revenues.

Analysis of net patient revenues

Northwestern Medical Center

Net Patient Revenue	2014B	2014A	Change	% Change
Disproportionate share	\$ 1,504,185	\$ 1,543,718	\$ 39,533	2.6%
				Change in DVHA calculation.
Medicaid	\$ 13,373,507	\$ 15,139,377	\$ 1,765,870	13.2%
				Better reimbursement and utilization
Medicare	\$ 25,703,936	\$ 27,782,873	\$ 2,078,937	8.1%
				Better reimbursement (low volume)
Commerical/self pay/Wcomp	\$ 47,177,677	\$ 46,699,444	\$ (478,233)	-1.0%
				mix of services/utilization
TOTAL	\$ 87,759,305	\$ 91,165,412	\$ 3,406,107	3.9%

NPR allowed variance at 0.5%	\$ 438,797
Variance to be explained	\$ 2,967,310

Variance to be explained	
Medicaid provider billing	\$ 650,000
Medicaid utilization	\$ 1,100,000
Bad debt higher than budget	(\$320,929)
Free care lower than budget	\$ 809,461
Vt. Managed care incentive contract	\$ 1,475,000
Medicare reimbursement changes (low volume designation)	\$ 400,000
	\$ 4,113,532